

Record of Decision

LTIAP Formula Allocation Amendments

Background

In May, 1988, the Bonneville Power Administration issued the Long-Term Intertie Access Policy (LTIAP) governing electric power transfers over federally-owned portions of the Pacific Northwest - Pacific Southwest Intertie (Intertie). In addition to long-term firm transactions, the LTIAP, in section 5(c), accommodated federal and nonfederal short-term sales through application of three allocation methodologies (Conditions 1, 2 and 3) which varied according to Northwest water and energy supply conditions (Formula Allocation). Condition 1 applied when the federal hydro system was in spill or there was a likelihood of spill. Condition 2 applied when the federal hydro system was not in or near spill conditions and the declared energy supply of BPA and Northwest Scheduling Utilities was sufficient to fully utilize all available Intertie capacity. Condition 3 applied when spill or threatened spill conditions did not prevail and the declared energy supply of BPA and Northwest Scheduling Utilities was insufficient to fully utilize available Intertie capacity. In Condition 3, remaining capacity was allocated to extra-regional utilities.

The LTIAP, in section 5(d), also provided for an 18-month experiment (Formula Allocation Experiment or FAE) to be conducted in Conditions 2 and 3. Under the FAE, BPA allocated to itself its pro rata share of Intertie capacity and subjected remaining capacity to competition among the nonfederal utilities eligible in that condition, thereby forcing increased competition among suppliers in each of those two conditions.

Based on data collected, BPA informed its customers in September, 1991 that the FAE had little impact on any of six concerns BPA had earlier listed for assessment, except that operational and planning efficiency had been seriously impaired for BPA, suppliers and purchasers. (Attachment 1). BPA indicated its intent to develop alternative procedures while conforming to the competitive intent of the experiment.

The FAE also facilitated recognition of significant reductions in the occurrence of both Conditions 2 and 3. FAE data showed that, outside of Condition 1 periods, the combined occurrence of Conditions 2 and 3 had declined to 9.1% of the time. During nearly 91% of non-Condition 1 periods, intertie capacity exceeded requests for its use. As a result, no intertie capacity allocation was performed and the marketing of energy occurred within a fully competitive environment for all suppliers (BPA, Northwest utilities, extraregional utilities). The decline continued after the FAE, with Condition 2 occurring only 1.4% of the non-Condition 1 periods through September, 1992. These declines were largely attributed to a significant increase in transfer capability of the Intertie. The declines are expected to continue with the addition of another 1600 MW of transfer capability when the Third AC Intertie project is completed in 1993.

On December 11, 1992, BPA issued for public review a Proposal to Amend BPA's Long-Term Intertie Access Policy. (Attachment 2). Because of the

dramatic reductions in their occurrence, the agency proposed to eliminate Conditions 2 and 3 and to formally replace them with a single condition labelled Open Market in which BPA, other Northwest suppliers and extraregional suppliers would compete for Intertie capacity by arranging transactions with Southwest purchasers. No substantive changes to Condition 1 were proposed. Wording changes to effect the proposal, to recognize the termination of the FAE, and to make various nonsubstantive corrections were included for review and comment. The proposal called for comments to be filed with BPA through January 30, 1993.

Summary of Comments Received

Six written comments on the proposal were received. (Attachment 3). The California Energy Commission (CEC) urged BPA to immediately adopt the proposed amendments. The CEC, a long-time opponent of Conditions 2 and 3, stated that Conditions 2 and 3 were unreasonable because they provided "fixed Intertie allocations at times when there is no reasonable threat of spill in the Northwest." CEC at 1. CEC applauded BPA's proposal to create an Open Market condition to substitute for Conditions 2 and 3 while maintaining pro rata sharing of Intertie capacity during times of spill or likelihood of spill. It agreed that recent expansions of Intertie capacity minimized the occurrence of Conditions 2 and 3 and indicated that implementation of BPA's proposal would further legitimize electricity trade between Canada, the Northwest and California. The CEC's only two concerns were (1) the proposal did not address the LTIAP's restrictions on Assured Delivery and (2) BPA could render the proposals meaningless by liberally declaring a "likelihood of spill", thereby triggering the strict allocation mechanism of Condition 1, when the likelihood was actually remote.

Direct Service Industries, Inc. (DSIs) cautioned BPA that the low incidence of Conditions 2 and 3 may be a function of recent drought conditions in the Northwest. The DSIs suggested that BPA and other Northwest suppliers could be harmed by the elimination of Conditions 2 and 3 if more normal water conditions return. Consequently, they suggested that BPA "give additional thought as to whether it is in BPA's best interests" to implement the proposal.

The Sacramento Municipal Utility District (SMUD) supported the proposal. It noted that an Open Market condition would "allow a higher utilization of available Intertie capacity by both Northwest Scheduling Utilities and Extra-Regional Utilities."

The British Columbia Power Exchange Corporation (POWEREX) also supported the proposal. Stating its firm support for "open, market based, competitive transmission access", it found the proposal to be "the first step in aligning [BPA's] transmission access policy to the [1992 National Energy Policy Act]." POWEREX also stated that the Energy Policy Act, the Canada/US Free Trade Agreement and the North American Free Trade Agreement required BPA to move beyond the proposal to a full open market. Consequently, BPA should begin an assessment of the impact of eliminating Condition 1. It suggested that any resulting cost to BPA and the region "could be reflected in the wheeling charges", keeping BPA whole while providing open access benefits to the West Coast.

The Montana Power Company (MPC) listed one concern. Though stating that it has "no quarrel with providing access to extra regional utilities under open market conditions", MPC is concerned that the proposal could be interpreted to increase extraregional access to the Intertie in Condition 1. MPC requested clarification of the proposal on this point.

The Southern California Edison Company (SCE) stated that it does not oppose BPA's proposed amendment. SCE viewed the amendment as (1) promoting competition in the inter-regional bulk power market; (2) easily administered; and (3) consistent with realistic operating conditions.

Issue Analysis

1. Whether the disappearance of Conditions 2 and 3 is a temporary phenomenon tied to the recent drought conditions.

The DSIs have suggested that the low percentage of time that Conditions 2 and 3 have been effective under the LTIAP during the last 3 years has been a function of bad water years. There is little doubt that the drought has dramatically reduced the amount of Northwest energy available for export to California. If Intertie capability had remained the same, there would be a greater likelihood, when normal water conditions return, of sufficient exportable energy supplies to load the Intertie and regularly trigger either Condition 2 or 3. But during the same time period, the transfer capability of the Intertie has grown by 40%, with an additional 1600 MW soon to come on line. In addition, demand for energy in the Northwest has increased, reducing the supply of exportable economy energy. Non-power constraints on the river system resulting from efforts to protect the environment have also significantly affected when exportable energy is available and reduced the generating capability necessary to produce it. BPA believes that these changes have all but eliminated the likelihood of exportable energy supplies sufficient to fully load the Intertie. Consequently, shifts between Condition 1 and an open market version of Condition 3 would be the pattern even without formal elimination of Conditions 2 and 3.

This conclusion is supported by the following information. Since July 1988, the cumulative north-to-south AC and DC power flows have approached 100 percent of Intertie capability in only two of the four years. In each of those two years, this occurred less than 1 percent of the time. During this period, power flows in excess of 80 percent of Intertie capability were sustainable less than 8 percent of the time under 1989-1990 water conditions which provided a volume runoff equal to 97.3 percent of the 50-year average measured at The Dalles. The same was true less than 6 percent of the time in 1990-1991 which provided a volume runoff of 104.8 percent of the 50-year average. Current projections show, optimistically, that May-June loadings (including projected new firm federal and nonfederal transactions) could approach 90 percent of capability during peak heavy load hour periods, but this would rely heavily upon a lack of regional nonfirm energy markets and an absence of non-power constraints.

If levels of energy availability sufficient to trigger allocations in Conditions 2 and 3 ever do occur again, they will be rare and temporary.

Allocation does not guarantee markets. During the past three years, an average of 2400 MW of Intertie capability remained unused during Condition 2 periods. Completion of the Third AC Intertie could well increase this amount. The key to BPA's success is the flexibility of the Federal System to enable the conservation of energy until markets are available. Should a likelihood of spill result, a declaration of Condition 1 remains solely BPA's option. In Condition 1, BPA is assured of significant access to the California market through prescheduled allocations and the true-up mechanism.

2. Whether BPA should also modify Condition 1 and LTIAP Assured Delivery provisions.

POWEREX suggests that BPA is required by law and international agreements to eliminate Condition 1 and recover any resulting costs through BPA's rate structure. BPA is not required by the Energy Policy Act, the Canadian/US Free Trade Agreement or the North American Free Trade Agreement to undertake any modifications (including the proposed elimination of Conditions 2 and 3) to the LTIAP's Formula Allocation methodology. The Conference Report to the Energy Policy Act states that "BPA's short-term transmission service allocation methodology for economy energy trades is . . . unaffected by the FERC's new authority to order access to transmission controlled by BPA." Conference Report, H. Rep. 102-1018, 102d Cong, 2d Sess. at 388. Neither does either Free Trade Agreement require BPA to adopt an open market policy. BPA-specific language in both agreements requires the LTIAP to provide the same access opportunities to BC Hydro as are provided to United States extraregional utilities. Condition 1 provides such equal treatment. BPA declines to review Condition 1.

Regarding CEC's recommendation to ease LTIAP restrictions on Assured Delivery transactions, BPA is separately reviewing the impact of the Energy Policy Act on its Assured Delivery provisions.

3. Whether the proposed amendments modify Condition 1 limitations on Intertie access by extraregional utilities.

Responding to the Montana Power Company's concern, the proposed amendments are not intended to modify access restrictions on extraregional economy energy during Condition 1. The 1988 LTIAP reserved BPA's discretion to provide extraregional utilities with Formula Allocation during Conditions 1 and 2 if appropriate agreements could be arranged. The proposed amendments maintain that discretion for Condition 1 access (now that Condition 2 is eliminated). No decision on extraregional access in Condition 1 is being made with this amendment. BPA would first inform Northwest utilities and request public comment before making a decision on any proposal which would provide allocations to extraregional utilities in Condition 1.

Decision

The question for BPA is not whether to institute an Open Market mechanism for economy sales to California. Such a mechanism is already in use during most of the non-Condition 1 periods, necessitated by recent expansions of Intertie transfer capability. The issue is whether to retain Conditions 2 and 3 for use in the event the applicable circumstances ever arise again. For the

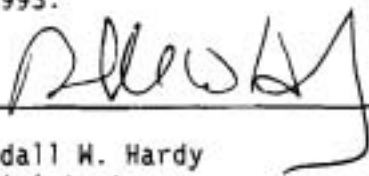
reasons stated above, BPA believes it is unlikely that those circumstances will occur again with any degree of significance. Elimination of Conditions 2 and 3 provides more certainty for suppliers and purchasers, simplifies operating procedures for BPA's scheduling personnel and mirrors the increased competition among purchasers expected to occur in California as a result of the Third AC line.

The proposed simplification to a Condition 1/Open Market approach is very similar to the "Pre-IAP" formula allocation alternative analyzed in the Intertie Development and Use Environmental Impact Statement (IDU-EIS). (IDU-EIS Summary at 8, IDU-EIS at 2-8 through 2-12). The Pre-IAP alternative consisted of (1) the Exportable Agreement, which strictly allocated federal Intertie capacity only among BPA and Northwest utilities during spill or imminent spill conditions and (2) an open market condition at all other times in which suppliers competed for the market without allocations being made. The IDU-EIS found that the environmental impacts of the Pre-IAP alternative were essentially the same as the impacts of the methodology employing the three conditions (Conditions 1 - 3) and ultimately adopted in the LTIAP. Since that time, as explained above, changes in Intertie transfer capability have reduced the practical differences between the two approaches to just a few hours each year, further minimizing any differences in impact that may have previously existed. Additionally, BPA has retained the Condition 1 Protected Area sanction without change. Consequently, BPA believes that adoption of the Condition 1/Open Market approach will maintain the environmental status quo.

BPA hereby adopts the Proposed Amendment to the Long-Term Intertie Access Policy. Conditions 2 and 3 of the LTIAP are formally eliminated in favor of the Open Market condition which has increasingly dominated the non-Condition 1 periods over the last 5 years. Condition 1 is retained. The revised Formula Allocation section is appended as Attachment 4.

I have reviewed and hereby approve this decision to adopt the Proposed Amendment to the Long-Term Intertie Access Policy attached hereto.

Issued in Portland, Oregon, April 8, 1993.



Randall W. Hardy
Administrator



Department of Energy
Bonneville Power Administration
P.O. Box 3621
Portland, Oregon 97208-3621

September 16, 1991

OFFICE OF THE ADMINISTRATOR

In reply refer to: **PMLA**

**FORMULA ALLOCATION EXPERIMENT
CUSTOMER NOTICE**

Dear Customers and Interested Parties:

Bonneville Power Administration (BPA) issued a customer notice on February 28, 1990, announcing the extension of the Formula Allocation Experiment (FAE) through September 30, 1991. The purpose of this customer notice is:

1. To provide a summary of the FAE analysis;
2. To provide a summary of the customer comments; and
3. To announce BPA's intent regarding the FAE.

A. Summary of the FAE Analysis

Section 5(e) (as amended by the February 28, 1990, customer notice) of the Long Term Intertie Access (LTIAP) policy states that during the course of the experiment BPA will collect and analyze information on a set of topics relevant to future allocation procedures. BPA has collected and analyzed data from the beginning of the FAE (October 1, 1988) to the present. During that time, the Intertie has been in Condition 2 for 1 or more hours on 67 days, not all of them consecutive. A summary of Condition 2 experiences since 1988, by topic, follows.

1. **What was the effect on BPA revenue of allocating to non-Federal utilities as a group rather than individually (block allocation)?**

Although BPA may have suffered some economic loss, there was no significant effect. BPA sales exceeded the 75 percent criteria (the breaking point for true-up) established in Section 5(c)(2)(B) of the LTIAP; from this perspective, FAE may have little effect on BPA's power revenues. However, FAE does not permit the application of the IS-89, IIIA transmission charge on unused allocation, and this may have led to a loss of wheeling revenue for BPA. Northwest utilities, declaring available energy for sale to the California market, routinely declared larger quantities for sale than was purchased. There were instances when BPA had marketable energy available and a willing buyer in California; however, the only remaining capacity was contained in the non-Federal block.

Conclusion: At best, FAE provides no benefits to BPA. In some cases, BPA suffers loss in revenue. Although this loss to BPA has not been quantified, BPA's analysis indicates that California utilities saved a total of \$140,000 during the FAE.

2. **What was observed regarding the impairment of Intertie access for California utilities presently lacking ownership in the southern portion of the Intertie?**

Agreements between California utilities that have access to the Intertie and those that do not provide for specific transmission services upon mutual agreement. Experience during FAE indicates that mutual agreement is rarely reached. However, during FAE, the Western Systems Power Pool (WSPP) provided those utilities without access the opportunities to acquire transmission services not otherwise available. Such transmission was responsible for most, if not all, nonfirm transactions between those utilities and the Northwest sellers.

Conclusion: The FAE analysis shows that there is little California capacity made available for use by "have nots" to access Pacific Northwest nonfirm energy other than that made available by WSPP.

3. **Was there any loss of BPA sales due to a failure to share unused capacity among California entities with ownership or contractual interests in the Intertie?**

Although some contractual wheeling arrangements have been arranged between California utilities, WSPP continues to be the primary method used to conduct wheeling transactions. WSPP is critical to sharing unused capacity among owners in California.

Conclusion: Yes, BPA most likely lost some sales, however, some sharing of capacity occurred through the WSPP.

4. **What were the effects of the experiment on small Scheduling Utilities?**

Only two small utilities participated in FAE, and then only sparingly. They had varied success when participating.

Conclusion: FAE had little effect on small Scheduling Utilities.

5. **What was the effect of the experiment in terms of administrative difficulties imposed on BPA schedulers and participating utilities?**

Experience with FAE procedures indicates that the procedures increase the complexity of every aspect of the scheduling process. The effort to accurately input and verify incoming schedules is intense and frequently frustrating for BPA and Northwest and California schedulers. BPA realtime schedulers are affected as well, in that the FAE process required two, and sometimes three, calls to the BPA

duty scheduler to complete a single transaction, where one call was all that was previously necessary. One of FAE's more serious impacts is its affect upon the planning process. Utilities have to plan their system operation while off-system sales, which may be a significant part of their load, remain unknown. California schedulers have similar problems, which include arranging purchases before they have sufficient time to evaluate their system conditions, sometimes finding later that purchases cannot be delivered due to a lack of transmission.

Conclusion: The FAE procedure is one in which scheduling is, through FAE's design, done blindly. Schedulers throughout the Northwest and California have all stated their frustrations with the FAE procedures. Although FAE does provide California utilities with a limited "free market," the extra work required in setting up the sale may cancel the benefits.

6. What was the effect of the experiment on the fish and wildlife protection goal described in Section 7(d) of the LTIAP?

The FAE had no impact upon BPA's fish and wildlife protection goals because no new hydroelectric power project has been built since the adoption of the LTIAP that conflicts with the Protected Areas provisions (section 7). This, however, does not lessen BPA's concerns in this area. The block allocation methodology prescribed by the FAE during Condition 2 is of particular concern. This methodology provides no individual formula allocations; thus, it nullifies BPA's ability to apply the decrement provisions of Section 5(b).

Conclusion: The FAE block allocation procedure does not provide acceptable protection of ratepayer investment for critical fish and wildlife habitat. BPA is continuing its review of alternative means for ensuring effective protection of that investment.

B. Summary of Customer Responses

BPA requested comments regarding FAE during the initial 18 months of the Experiment and again in June 1991, during the 18-month extension of FAE through September 30, 1991. To provide a short summary of the comments, selected excerpts from the most recent letter received from a commenting utility follows.

1. City of Seattle--City Light Department (August 29, 1989):

"The experiment has had a negative impact on this utility in the form of added costs for scheduling on an overtime basis. The overtime is a result of the scheduling procedures that do not determine if a sale has been made or not to the Southwest until as late as three o'clock in the afternoon."

"One of the more important negative impacts attributed to the experiment is the adverse operation of our resources that the concept of this experiment can potentially cause."

". . . but we continue to believe that the concept of the experiment is testing, is adverse to this utility's best interest and that to continue to experiment into the future will:

- a. Result in lost revenue to this utility;
- b. Result in less efficient operation of our resources; and
- c. Result in higher administrative costs."

2. Montana Power Company (July 19, 1991):

". . . 'first come, first served' feature . . . has created serious problems."

3. Pacific Power/Utah Power (July 19, 1991):

Urges provisions of the FAE be adopted, based on the view that ". . . administrative burdens . . . [are] far less under the provisions of the FAE than under the current Formula Allocation . . . and, allocations of the Intertie under the provisions of the FAE are more equitable."

4. Puget Power (July 19, 1991):

"The current BPA approach [to information capability] artificially and unnecessarily restrains transactions"

5. Washington Water Power (July 19, 1991):

"The 'first come, first served' feature of the Experiment under Condition 2 has created very erratic sales opportunities on a day-to-day basis."

Recommends that "BPA curtail the experiment as soon as possible, and return to issuing individual utility allocations."

6. Eugene Water and Electric Board (July 22, 1991) (also received letters on May 4 and June 5, 1989):

"The experiment has affected us adversely at times, but it has some advantages also."

7. Idaho Power Company (July 26, 1991):

It has been Idaho Power Company's experience that the FAE has not "increase(d) competition in the economy energy market by providing a single non-Federal allocation in the intertie"

8. Pacific Gas and Electric (August 16, 1991; submitted by PG&E on behalf of several California parties, including SCE, LADWP, CEC, and CPUC) (also received Southern California Edison, November 30, 1989, and Pacific Gas & Electric, December 1, 1989):

"The California Parties believe that the implementation of the experiment has not achieved the goal of restoring competition. Whatever benefits it was supposed to provide in this regard, the uncertainties and administrative burdens imposed on our operators and schedulers probably have made the experiment as implemented to date a net burden."

C. BPA's Notification Regarding FAE

BPA has analyzed the data collected during the two phases (the initial 18-month experiment and the extension) of FAE. BPA has also collected and reviewed the comments from the 12 letters received. There is not full agreement from the customers' responses regarding any benefits or detriments of the FAE. It can be concluded, however, that respondents were generally opposed to the administrative procedures of FAE used during Condition 2 occurrences.

BPA continues to be interested in exploring ways to share Intertie capacity other than by making individual Formula Allocations with Scheduling Utilities. As implemented, the FAE procedures are unsatisfactory. Something must be done to reduce administrative problems and to provide acceptable protection against the construction of projects in Protected Areas. Currently, BPA's Power Supply staff believes they have a way to use normally acceptable scheduling procedures (without the need for speed-dialing and multiple contacts with duty schedulers) yet conform to the competitive intent of the experiment. BPA does not need any more data collection and evaluation for FAE, but BPA has not yet fully developed the specific alternative.

Thus, BPA's intent is to develop a specific alternative, seek customer comments on that alternative, and then implement the specific alternative with any modifications, without an additional trial period. The following schedule is anticipated:

1. Extend Condition 2 procedures for implementing LTIAP section 5(d)(2) developed for FAE until a specific alternative is implemented.
2. Issue specific draft alternative procedures to the customers and other interested parties for comments by January 15, 1992, with a 30-day comment period to follow.
3. Implement the final specific alternative procedures on March 1, 1992.

As before, your comments and recommendations are welcome as we proceed to implement a specific alternative.

Sincerely,

ACTING James S Jones
Administrator



Department of Energy
Bonneville Power Administration
P.O. Box 491
Vancouver, Washington 98666-0491

(Attachment 2)

DEC 11 1992

In reply refer to: PS

Proposal to Amend BPA's Long-term Intertie Access Policy

Action: The Bonneville Power Administration (BPA) is making available for public review a proposed amendment to the Long-Term Intertie Access Policy (LTIAP). An explanation and description of the proposed action is attached for your review and comment.

Background: BPA issued the LTIAP in May 1988 to govern use of the Federal share of the Pacific Northwest-Pacific Southwest Intertie (Intertie). In addition to accommodating long-term firm transactions, the LTIAP provided three methodologies for allocating transmission for federal and nonfederal short-term sales referred to as Conditions 1, 2, and 3. The LTIAP also provided for an 18-month experiment (Formula Allocation Experiment or FAE) to be conducted during Conditions 2 and 3.

The FAE was begun in October 1988 and was extended through March 1991 to collect sufficient data to make a meaningful evaluation. In September 1991, BPA notified its customers that the evaluation had been completed and it found that the FAE had little impact in any of the six areas of concern, except that it had a serious adverse affect upon operations and scheduling functions. It did aid BPA in recognizing the significant changes that had and were occurring with respect to the incidence of both Condition 2 and Condition 3. Our analysis shows that during the FAE period, excluding Condition 1, Condition 2 occurred with a frequency of 7.6 percent and Condition 3 with a frequency of 1.3 percent. This left, roughly, 91 percent of the hours when there was insufficient interest by BPA, regional Scheduling Utilities, and extra-regional utilities in using the full capabilities of the Intertie. The reasons are obvious, the most significant being a 40 percent increase in Intertie capability since 1988. It appears that opportunities to exercise Conditions 2 and 3 will be even more unlikely when the Third AC Intertie provides an additional 1600 MW.

BPA is, therefore, proposing to eliminate Conditions 2 and 3 and to formally replace them with a single condition to be labeled Open Market. Open Market, which has been heretofore referred to as "Condition 4", recognizes that Formula Allocation is unnecessary when Intertie capability exceeds the sum of all requests for non-firm use. BPA is not proposing to modify Condition 1 in any way.

The Process: Comments will be accepted through January 30, 1993. Mail comments to: Bonneville Power Administration, Public Involvement Manager, P.O. Box 12999-ALP, Portland, Oregon 97212

Documents Available: Additional copies of the proposal may be obtained by calling our document request line: toll-free 800-622-4520 and asking for the Proposal to Amend BPA's Long-Term Intertie Access Policy.

For Further Information Contact: Mr. Douglas Dawson at 206-690-2168, or the Public Involvement office in Portland. Telephone numbers, voice/TTY, for the Public Involvement office are: 503-230-3478 in Portland; and toll-free 800-622-4519 for the rest of the United States.



Mark W. Maher
Acting Director, Division of Power Supply

Enclosure

Proposal to Amend BPA's Long-Term Intertie Access Policy

Summary

In May 1988, BPA issued the Long-Term Intertie Access Policy (LTIAP) governing transactions over Federally owned portions of the Pacific Northwest - Pacific Southwest Intertie (Intertie). In addition to long-term firm transactions, the LTIAP, in section 5(c), accommodated federal and nonfederal short-term sales through application of allocation methodologies varying according to water and energy supply conditions (Formula Allocation). The LTIAP, in section 5(d), also provided for an 18-month experiment (Formula Allocation Experiment or FAE), applicable during Conditions 2 and 3, under which BPA allocated itself Intertie capacity with the remaining capacity being allocated as a single block for the common use of nonfederal utilities, thereby forcing increased competition among suppliers in each of those two conditions. Condition 2 applied when the energy supply of BPA and Northwest Scheduling Utilities was sufficient to fully utilize all available Intertie capacity. Condition 3 applied when the energy supply of BPA and Northwest Scheduling Utilities was insufficient to fully utilize available Intertie capacity. Remaining unallocated capacity was made available to extra-regional utilities.

The 18-month experiment began October 1988 and was extended through March 1991 for data collection purposes. On September 16, 1991, BPA informed its customers and other interested parties that the FAE had little impact in any of six areas of concern, except that operational and planning efficiency had been seriously impaired for BPA, suppliers, and purchasers. BPA indicated its intent to develop alternative procedures while conforming to the competitive intent of the experiment.

BPA is now proposing to eliminate Conditions 2 and 3 because of their declining relevance and to formally replace them with a fully competitive mechanism. BPA has already applied this mechanism in most non-Condition 1 periods in response to marketing conditions which have changed substantially since the development of the LTIAP in 1988. Most significant is a 77 percent increase in Intertie capacity between 1988 and completion of the Third AC Intertie in 1993. Condition 1 would be retained. BPA is seeking comments on this proposal.

Background

The FAE tested the effect of increased competition among nonfederal suppliers on six concerns: (1) BPA revenues; (2) access by potential California buyers who are not transmission owners to California's bulk transmission system; (3) sharing of unused transmission capacity among California transmission owners; (4) sales by small Northwest Scheduling Utilities; (5) administrative efficiency; and (6) fish and wildlife protection. The LTIAP committed BPA to make a decision on Condition 2 and 3 allocation procedures at the end of the FAE.

In the LTIAP, Condition 1 is defined as an occurrence of spill or likelihood of spill on the Federal Columbia River Power System (FCRPS). Condition 1 provides protection for BPA and Northwest Scheduling Utilities by denying Intertie access to extra-regional utilities. BPA is further protected through a true-up procedure which assures it a pro rata share of all nonfirm sales to the Southwest. Conditions 2 and 3 are defined as periods when spill on the FCRPS is not likely. Condition 2 applies when BPA and Northwest Scheduling Utilities make available energy sufficient to fully load the Intertie. Extra-regional utilities are denied access and, in the absence of the FAE, competition between Northwest Scheduling Utilities is limited to each utility's individual pro rata allocation. Condition 3 applies when Northwest energy declarations are insufficient to load the Intertie. Consequently, Northwest Scheduling Utilities are granted Intertie allocations equal to their energy declarations and extra-regional energy suppliers are thereafter allowed access to the remaining capacity.

The frequency of occurrence of Conditions 2 and 3 has significantly declined since mid-1988. Condition 2 occurred less than 8 percent of the time during the nearly three-year FAE. Condition 3 comprised only 1.3 percent of non-Condition 1 periods during the FAE. The decline has continued with Condition 2 being applicable to only 1.4 percent of the non-Condition 1 periods from April, 1991 through September, 1992. These declines

resulted primarily from increases in the transfer capability of the Intertie and will be exacerbated by an additional 1600 MW of Intertie capacity which will soon come on line.

On the other hand, occurring approximately 91 percent of the non-Condition 1 period during the FAE was a variant of Condition 3, not explicitly specified in the LTIAP, in which unassigned Intertie capacity continued to exist after all Northwest and extra-regional supplies were permitted capacity sufficient to meet their needs. Because capacity exceeded requests for its use, no allocation was performed and the marketing of energy occurred within a fully competitive environment for all suppliers. Recognizing the increasing dominance of this condition, regardless of any action BPA may take with respect to allocation procedures in Conditions 2 and 3, and the continuing protections provided to BPA and Northwest Scheduling Utilities by the allocation mechanism of Condition 1, BPA is proposing the formal elimination of Conditions 2 and 3 and their replacement with this variant of Condition 3, to be labeled "Open Market." Except for a minor change eliminating reference to the Exportable Agreement, which expired December 31, 1988, BPA does not propose to modify Condition 1. BPA is also using this opportunity to propose other minor housekeeping changes elsewhere in the LTIAP.

In 1988, BPA indicated that it might consider applying Protected Area sanctions, now limited to Condition 1, to Conditions 2 and 3 if the FAE were to be terminated and individual utility allocations resumed. Though it maintains Protected Area decrements in Condition 1, this proposal does not incorporate individual allocations under the Open Market Condition which are necessary to implement the Protected Area decrements. BPA does propose to reserve the right to impose additional Protected Area restrictions on a case-by-case basis. BPA intends to initiate a Protected Areas policy development in the near future which will elicit ideas on further protective measures.

Proposed Amendment to the Long-Term Intertie Access Policy

BPA proposes to amend its Policy as follows:

1. Subsections 4(d)(1)(A) and 4(d)(1)(B) are amended by deleting references to Condition 2.
2. Subsection 5(a) is amended by deleting existing transmission contracts in Exhibit C. This reference should have been to Exhibit A. Regardless, all of these contracts have since expired.
3. Subsection 5(b) is amended by deleting the introductory phrase, *Except as provided in section 4(d)(2)(A)*. This phrase refers to a nonexistent section. The subsection is further amended as follows to specify that Protected Area sanctions apply during Condition 1:

(b) Protected Area Decrements. BPA will reduce each Scheduling Utility's Condition 1 allocation by any Protected Area decrement imposed pursuant to subsection 7(d). BPA reserves the right on a case-by-case basis to impose additional restrictions regarding facilities in Protected Areas.

4. Subsection 5(c) is amended as follows because of the expiration of the Exportable Agreement on December 31, 1988 and elimination of Conditions 2 and 3.

(c) Allocation Methods

(1) Condition 1

Condition 1 will be in effect when the Federal hydro system is in spill or there is a likelihood of spill, as determined by BPA. Available Intertie Capacity will be allocated pursuant to the following procedure:

(i) Each hour, the maximum Condition 1 allocations for BPA and each Scheduling Utility will be based on the ratio of their respective declarations to total declarations, multiplied by the Available Inter tie Capacity.

(ii) During Condition 1, whenever BPA is unable to utilize its full pro rata share of inter tie usage, BPA will take larger allocations on ensuing days until the difference in pro rata usage is eliminated.

(2) Open Market

When Condition 1 is not in effect, no declarations will be submitted by BPA or any utility. Available Inter tie Capacity will be assigned to those transactions first able to be arranged by BPA or utilities.

5. Subsections 5(d), 5(e), and 5(f) are deleted because of the termination of the Formula Allocation Experiment.

6. Subsection 6(b) is amended by (1) substituting Open Market for Condition 3 and (2) substituting Condition 1 for other conditions.

(b) Formula Allocation. Under Open Market, energy from Qualified Extra-regional Resources has access to the Inter tie. In addition, BPA may provide Extra-regional Utilities with Formula Allocation under Condition 1, if the utility agrees by contract either to increase participation in the Pacific Northwest's coordinated planning and operation, or to provide other consideration of value, apart from the standard BPA wheeling rate, commensurate with the services provided.

7. Subsection 7(d) is amended by (1) substituting Condition 1 allocation for Formula Allocation and (2) reserving the authority to apply other sanctions on a case-by-case basis.

(d) Enforcement. If a Scheduling Utility or Non-scheduling Utility owns, or acquires the output from, a hydroelectric project covered under the restrictions of section 7(a), BPA will reduce that utility's Condition 1 allocation by either the nameplate rating of the project (in the case of ownership) or the amount of capacity acquired by contract. BPA reserves the right on a case-by-case basis to impose additional restriction regarding such hydroelectric projects.

CALIFORNIA ENERGY COMMISSION
 CHARLES R. IMBRECHT
 Chairman

(REPLY DIRECT: ALP (Comment)
 c: RWH; JSR; EWS; P; PC; AL; AR



January 26, 1993

LTIAF-1-001

RECEIVED BY BPA ADMINISTRATIVE SERVICES GFC-1111	93-0144
FILED DATE	1/29/93
DUE DATE	2/12/93

The Honorable Randy Hardy
 Administrator
 Bonneville Power Administration
 c/o Public Involvement Manager
 P.O. Box 12999-ALP
 Portland, Oregon 97212

RESPONSE COPY TO AL-15

RE: Comments of the California Energy Commission on BPA's Proposal to Amend BPA's Long Term Intertie Access Policy

Dear Mr. Hardy:

Randy

I am pleased to provide comments on behalf of the California Energy Commission ("CEC") in support of your recent proposed amendments to BPA's Long Term Intertie Access Policy ("LTIAF"). The CEC believes this new LTIAF is a significant improvement over the current policy, and we urge BPA to adopt these amendments immediately.

Since the inception of this policy and throughout its development, the CEC has opposed provisions in the LTIAF that unduly restrict competition among Northwest hourly energy sellers through the allocation of fixed Intertie shares. In particular, we have opposed the practice of accepting declarations from Northwest energy producers and providing fixed Intertie allocations at times when there is no reasonable threat of spill in the Northwest. In response to our advocacy, BPA adopted the "Formula Allocation Experiment" whose purpose was to inject a measure of increased competition among non-federal sellers during certain non-spill conditions. While the experiment itself apparently proved difficult for system operators in both the Northwest and California and is therefore being discontinued, we are pleased that the experiment appears to have assisted BPA in recognizing that some of the restrictions in the LTIAF that we opposed most vehemently are unnecessary. We therefore applaud BPA's current proposal to simplify the LTIAF by creating only two conditions: (1) periods of spill or likelihood of spill (called "Condition 1") and (2) all other times. Under the new LTIAF, BPA would still provide pro rata shares of its Intertie capacity during Condition 1, but would declare "Open Market" at all other times, accepting schedules for Intertie use on a first-come, first-served basis.

The CEC also notes that BPA's request for comments shows that BPA is taking this action in large part because of the impact of large

Mr. Randy Hardy
Page 2
January 26, 1993

increases in the size of available Intertie capacity that have occurred since the LTIAP was adopted. The CEC agrees with BPA's observation that these new Intertie projects, which the CEC has supported for many years, will greatly reduce the incidence of periods in which Intertie scarcity will affect the price Northwest sellers receive for surplus power. We recall that BPA indicated in 1988, as it considered adoption of the LTIAP, that it would revisit some of the restrictions in the policy when and if a third AC Intertie was completed. Now that the California-Oregon Transmission Project is close to being a reality (in part due to the support of both BPA and the CEC), it is appropriate that BPA is fulfilling this commitment to review the LTIAP and is making available greater Intertie access when there is not a likelihood of spill.

As you are aware, the CEC has long maintained the importance of improving electricity trade between Canada, the Pacific Northwest, and California, and we have taken these positions in our policy reports and before the California Public Utilities Commission. Often we have heard parties question our judgment in this regard, pointing to the LTIAP as evidence that California would receive little of the benefit of that trade. It is therefore gratifying that BPA has taken this step on its own initiative, in effect supporting and reaffirming the validity of our view that in the long term, imports of surplus power from the Pacific Northwest and Canada will continue to be an important part of California's energy mix.

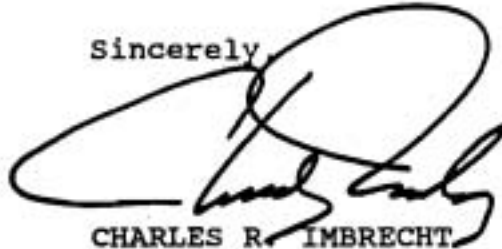
Plainly, BPA's proposed amendments do not address all of the concerns the CEC has raised concerning the LTIAP. We still believe that the policy should impose less restrictions on assured delivery and should make more assured delivery available (subject to mitigation during spill). We also recall that BPA operators have unrestricted discretion to declare a "likelihood of spill" and we believe that the amendments BPA has proposed for the policy could be rendered meaningless if BPA operators use that discretion to declare "likelihood of spill" (i.e. Condition 1 allocations) at times when that likelihood is actually remote. The LTIAP could be improved further through the adoption of more objective criteria for the declaration of "likelihood of spill." Nevertheless, even without these additional changes, we view the proposed amendments as a clear step in the right direction, and we support BPA's effort to simplify and improve the policy for the benefit of Intertie users at both ends of the line.

In sum, the CEC supports the proposed amendments and finds them particularly appropriate in light of evolving federal law and policy that is striving to increase access to transmission throughout the nation by all generators and utilities. We believe it is appropriate that BPA bring its LTIAP into line with the rules

Mr. Randy Hardy
Page 3
January 26, 1993

that will apply to all transmission owning utilities to the maximum extent consistent with BPA's other federal mandates. The proposed changes are an excellent beginning to the process of achieving that goal.

Sincerely

A handwritten signature in black ink, appearing to read "Charles R. Imbrecht", written in a cursive style. The signature is positioned above the printed name and title.

CHARLES R. IMBRECHT
Chairman

Direct Service Industries, Inc.

925 LLOYD CENTER TOWER □ 825 N.E. MULTNOMAH STREET □ PORTLAND, OREGON 97232-2150 □ (503) 233-4445

REPLY DIRECT: ALP (Comment)
c: RWH; JSR; P; AL; AR; EWS

RESPONSE COPY TO AL-15

January 26, 1993

Ms. Jo Ann C. Scott
Public Involvement Manager
Bonneville Power Administration
P.O. Box 12999-ALP
Portland, Oregon 97212

RECEIVED BY BPA ADMINISTRATOR'S OFC-LOG #: 93-045
RECEIPT DATE: 1/29/93
DUE DATE: 2/12/93

LTIAP-01-002

RE: Proposal to Amend BPA's Long-term Intertie Access Policy

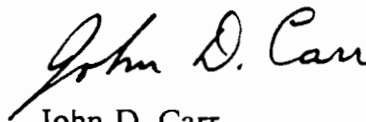
Dear Jo Ann:

The DSIs think it likely that BPA's findings of the low percentage of time that Conditions 2 and 3 have been effective under BPA's Intertie Access Policy during the last 3 years have been significantly reduced by the drought conditions that have persisted in the Pacific Northwest for the last several years. Thus, we are concerned that removing these conditions from the LTIAP, substituting Open Market for Condition 3, may adversely impact BPA's (and other NW utilities) Intertie sales, particularly under more normal hydro conditions.

There seems to be adequate reason to cease the formula allocation experiment. But as you know, doing so does not require deleting Conditions 2 and 3 from the LTIAP. We suggest that you give additional thought as to whether it is in BPA's best interests to do so.

We appreciate the opportunity to provide you these comments.

Sincerely,



John D. Carr
Executive Director

Attachment



SMUD

SACRAMENTO MUNICIPAL UTILITY DISTRICT
January 29, 1993

P. O. Box 15830, Sacramento CA 95852-1830, (916) 452-3211
AN ELECTRIC SYSTEM SERVING THE HEART OF CALIFORNIA

PC-044

Jo Ann C. Scott
Public Involvement Manager
BPA-ALP
P.O. Box 12999
Portland, OR 97212

LTIAP-01-003

RECEIVED BY BPA PUBLIC INVOLVEMENT LOG #:	
RECEIPT DATE: 01/30/93	
AREA:	DISTRICT

Subject: Proposal to Amend BPA's Long-Term Intertie Access Policy

The Sacramento Municipal Utility District (SMUD) appreciates this opportunity to provide input on Bonneville Power Administration's (BPA) proposed amendment to the Long-Term Access Policy (LTIAP).

SMUD supports BPA's proposal for the elimination of Conditions 2 and 3, two methods provided in the LTIAP for allocating transmission for federal and nonfederal short-term sales, and replacing it with a Condition 4, labeled "Open Market." SMUD believes that an "Open Market" condition appears to be a fully competitive mechanism which should allow a higher utilization of the available Intertie capacity by both Northwest Scheduling Utilities and Extra-Regional Utilities.

Sincerely,

Linda Hensley
Manager, Power Contracts



29 January 1993

Public Involvement Manager
Bonneville Power Administration
P.O. Box 12999 - ALP
Portland, Oregon 97212

RECEIVED BY BPA PUBLIC INVOLVEMENT LOG #: <u>LTIA-P</u>	
RECEIPT DATE: <u>01/30/93</u>	
AREA:	DISTRICT

01-004

Dear Sir:

Proposal to Amend BPA's Long-term Intertie Access Policy

The British Columbia Power Exchange Corporation (POWEREX) is encouraged by BPA's proposal to amend its Long-term Intertie Access Policy (LTIA-P) and welcomes this opportunity to comment on the proposal. POWEREX is involved in both the short term and long term electricity trade market and relies on access through BPA's Intertie to reach various customers.

POWEREX firmly advocates an open, market based, competitive transmission access policy and believes that marketing of electricity should occur within a fully competitive environment for all suppliers. The recently passed 1992 National Energy Policy Act promotes open access transmission and gives FERC the authority to mandate access through BPA at rates that are just and reasonable and not unduly preferential. BPA will be taking the first step in aligning its transmission access policy to the new legislation by removing Conditions 2 and 3 from the LTIA-P.

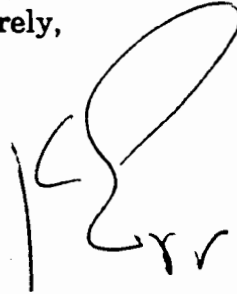
However, POWEREX believes that BPA should move to a full "open market", for transmission service, in order to meet the requirements, spirit and intent of the 1992 National Energy Policy Act, the Canada/US Free Trade Agreement and the North American Free Trade Agreement.

The Formula Allocation Experiment (FAE) clearly showed that increased competition among suppliers did not have a detrimental effect on BPA. In fact it showed that the requirements of Conditions 2 and 3 seriously impaired operational and planning efficiency for BPA. We suggest that it would be beneficial, at this time, for BPA to reassess the impact, if any, of eliminating Condition 1 and compare that to the value to the industry of a true open access. Any cost to BPA and the region from removing Condition 1 could be reflected in the wheeling charges. BPA would remain whole; the West Coast meanwhile would reap the benefits that true open access brings.

29 January 1993

We thank you for this opportunity to comment and look forward to further participation in this important process. If you require any further information or clarification of the comments please call Dr. Zak El-Ramly at (604) 528-7830.

Sincerely,

A handwritten signature in black ink, appearing to be 'K. Epp', with a large, stylized loop at the top and a vertical line extending downwards on the left side.

K. Epp
President and
Chief Executive Officer



GENERAL OFFICES : 40 EAST BROADWAY, BUTTE, MONTANA 59701

January 29, 1993

RECEIVED BY BPA PUBLIC INVOLVEMENT LOG #:LT/AP-1-5	
RECEIPT DATE: 1/30/93	
AREA:	DISTRICT

Bonneville Power Administration
Public Involvement Manager
PO Box 12999-ALP
Portland, OR 97212

Re: LONG TERM INTERTIE ACCESS POLICY

Dear Public Involvement Manager:

We have examined Bonneville Power Administration's proposal to amend BPA's Long Term Intertie Access Policy. We remain concerned that the Intertie is a valuable resource which must be preserved for the benefit of regional utilities. Fair and non-discriminatory access to the Intertie is of vital interest to MPC.

We are comforted by the statement that BPA is not proposing to modify Condition 1 in any way. At the same time, we are concerned that the proposed amended language in Section 6B can be read as a modification of Condition 1. The proposed 6B states, in part, "BPA may provide extra regional utilities with formula allocation under Condition 1, if the Utility agrees by contract either to increase participation in the Pacific Northwest's Coordinated Planning and Operation, or to provide other consideration of value, apart from the standard BPA wheeling rate, commensurate with the services provided."

Similar language exists under the present policy in Section 6B without reference to Condition 1. I have visited with Doug Dawson for clarification on this point. Doug indicates this reference to Condition 1 is an outgrowth of the amendment to the original policy language and not an attempt to modify Condition 1. Nevertheless, we at The Montana Power Company (MPC), find this language to be unclear and hereby request clarification on this point.

Section 6 of the existing policy details the conditions under which access will be granted to Qualified Extraregional Resources. It is important to MPC that those conditions not be modified by this amendment. We have no quarrel with providing access to extra regional utilities under open market conditions. Thank you for the opportunity to comment on your proposed amendment to the LTIAP.

Sincerely,

Robert L Miller
Executive Assistant,
Transmission & Power Management

0470RLM/mh

cc: Howard Van Noy
Erv Hedegaard
Bill Pascoe



Southern California Edison Company

P. O. BOX 800
2244 WALNUT GROVE AVENUE
ROSEMEAD, CALIFORNIA 91770

GIL H. L. TAM
POWER CONTRACTS MANAGER
CONTRACT DEVELOPMENT AND ADMINISTRATION

January 28, 1993

TELEPHONE
(818) 302-1771
FACSIMILE
(818) 302-1152

Bonneville Power Administration
Public Involvement Manager
Post Office Box 12999-ALP
Portland, Oregon 97212

RECEIVED BY BPA PUBLIC INVOLVEMENT LOG #: LTIAP-1-6	
RECEIPT DATE: 1/30/93	
AREA:	DISTRICT

RE: BPA's Long-Term Intertie Access Policy ("LTIAP")

Gentlemen:

Edison appreciates the opportunity to comment on Bonneville Power Administration's (BPA's) proposal to amend its LTIAP as attached to BPA's letter of December 11, 1992. As we understand, BPA is proposing to eliminate Conditions 2 and 3 from the LTIAP and replace them with a single Condition 4 to be labeled "Open Market."

Edison has long encouraged BPA to modify the LTIAP to promote competition in the inter-regional bulk power market in a manner which can be easily administered and is consistent with realistic operating conditions. It appears that "Open Market" Condition 4, with the elimination of Conditions 2 and 3, should increase access to BPA's transmission system for Northwest and Extra-Regional utilities. Therefore, Edison does not oppose BPA's proposed amendment.

Sincerely,

Gil H. L. Tam
Power Contracts Manager

GHLT/dot

Attachment 4

Formula Allocation Amendments

1. Subsections 4(d)(1)(A) and 4(d)(1)(B) are amended by deleting references to Condition 2.
2. Section 5, Formula Allocation, is amended as follows:

Section 5. Formula Allocation

(a) Limits On Intertie Capacity Available For Formula Allocation.

Generally, BPA will first determine Intertie Capacity available for Formula Allocations after first taking into account the amount of Intertie Capacity necessary to satisfy requirements of the Administrator's Power Marketing Program and Assured Delivery contracts executed by BPA pursuant to this policy. However, in determining Available Intertie Capacity during Condition 1, BPA will not consider the Assured Delivery contracts to the extent they are subject to operational mitigation requirements. BPA may reduce any allocation, if additional Intertie Capacity is required to minimize revenue losses associated with actions taken to protect fish in the Columbia River drainage basin.

(b) Protected Area Decrements. BPA will reduce each Scheduling Utility's Condition 1 allocation by any Protected Area decrement imposed pursuant to section 7(d). BPA reserves the right on a case-by-case basis to impose additional restrictions regarding facilities in Protected Areas.

(c) Allocation Methods.

(1) Condition 1 Condition 1 will be in effect when the Federal hydro system is in spill or there is a likelihood of spill, as determined by BPA. Available Intertie Capacity will be allocated pursuant to the following procedure:

(i) Each hour, the maximum Condition 1 allocations for BPA and each Scheduling Utility will be based on the ratio of their respective declarations to total declarations, multiplied by the Available Intertie Capacity.

(ii) During Condition 1, whenever BPA is unable to utilize its full pro rata share of intertie usage, BPA will take larger allocations on ensuing days until the difference in pro rata usage is eliminated.

(2) Open Market When Condition 1 is not in effect, no declarations will be submitted by BPA or any utility. Available Intertie Capacity will be assigned to those transactions first able to be arranged by BPA or utilities.

3. Subsection 6(b) is amended as follows:

(b) **Formula Allocation.** Under Open Market, energy from Qualified Extraregional Resources has access to the Intertie. In addition, BPA may provide Extraregional Utilities with Formula Allocation under Condition 1 if the utility agrees by contract either to increase participation in the Pacific Northwest's coordinated planning and operation or to provide other consideration of value, apart from the standard BPA wheeling rate, commensurate with the services provided.

4. Subsection 7(d) is amended as follows:

(d) **Enforcement.** If a Scheduling Utility or Nonscheduling Utility owns, or acquires the output from, a hydroelectric project covered under the restrictions of section 7(a), BPA will reduce that utility's Condition 1 allocation by either the nameplate rating of the project (in the case of ownership) or the amount of capacity acquired by contract. BPA reserves the right on a case-by-case basis to impose additional restrictions regarding such hydroelectric projects.